Our Legal Tender System;

Its Evils and Their Remedy.

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OUR LEGAL TENDER SYSTEM.

THE QUESTION STATED.

What is the currency problem which awaits immediate settlement at the hands of Congress? It is not, we conceive, the reconstruction of our entire monetary system upon a consistent scientific basis. With such a crude public opinion as now exists and with the diversity of economic sentiment that divides Congress, to attempt the readjustment of a system which includes eight different forms of currency and over $2,400,000,000 of coin, notes and certificates would be to invite almost certain failure from disagreement. The work must be executed in instalments; and the first step in reform should be to deal with those constituents of the general aggregation of our money which are most fundamental, most dangerous and most influential upon the credit, finances and investments of the country.

This method of treatment means, first of all, the rectification of the legal tender portion of our currency. Under that classification comes 650 millions of gold coin, 437 millions of silver dollars, 346 millions of United States notes, and 120 millions of Treasury notes of 1890. This 1,553 millions of coin and paper legal tender underlies and is the money of redemption of 614 millions of paper, consisting of silver certificates, bank notes, gold certificates and currency certificates, besides the 470 millions of legal tender paper. It is of vital importance to keep in mind that so far as the business of the country is transacted by the direct use of money it is done to the extent of about 75 per cent through the use of silver certificates and bank notes. The value of this large proportion of the retail circulation is wholly dependent upon the value of the legal tender money. Evidently, therefore, the first factor to be considered in this problem is the quality of our existing legal tender; the more so because the latter not only determines the quality of the secondary forms of currency but also serves the highest monetary functions itself.

It is a gross anomaly in any currency system that it should have such a multiplicity and volume of legal tender currencies as exist in ours. Among well-governed countries, one or two forms of legal tender is generally regarded as all that comports with monetary compactness and safety; and where more are found it is less from choice than from some dire necessity that over-rides economic law. But four,—each differing from the rest as to its basis of value and all warring against and weakening one another,—that is a case of calamity which no nation can long endure. There must, in such case, be either excision or fatality; for the thing most likely to happen, under those circumstances, is that the weaker forms will ultimately drive out the sounder and stronger, with the result of a debasement of the whole mass of money.

Among economists, it is by no means a settled question whether it is necessary or desirable to invest any form of money with the attribute of compulsory acceptance. The investing of some special form of currency with that quality, however, has the advantage of giving a finality to contracts and of establishing uniformity in the money of settlements,

Those advantages are great, and to insure them it may properly be allowable to constitute the most stable form of money the legal tender of a nation, especially when the unit is gold. But to invest any other form of money with that attribute is of more than doubtful wisdom and has rarely been resorted to, except as a means of forcing the circulation of currency which would not pass current on its own merits. Unsound paper and debased coins have commonly been made legal tender by States unable to support their finances by borrowing in full valued money; and that was unfortunately the origin of our greenbacks.

THE ROOT OF ALL OUR MONETARY DERANGEMENTS LIES PRIMARILY IN THIS MULTIPLICITY OF LEGAL TENDERS, AND IN THE DEFECTIVE QUALITY OF CERTAIN OF THEM. Let us then consider these currencies in detail.

I.

THE SILVER LEGAL TENDER.

First, as to the 437 millions of standard silver dollars. Here we have a large mass of coin made compulsorily available for all settlements equally with gold, the metal contained in which is worth in gold only half the legal valuation of the coin. The defect in the intrinsic value of the coin is assumed to be compensated by the fact that the Government stands formally pledged to keep this artificially valued money upon a parity with gold. The law, however, stipulates no method by which the Treasury shall effectively fulfill that engagement. Perhaps the most effective way in which the pledge could be made good would be through formally making the silver coin exchangeable for its face value in gold upon demand. Under an emergency, the Treasury would doubtless make such conversions, so far as it could. But there is a limit to the ability of the Treasury to procure gold for such a purpose. We may have, as is generally estimated, 700 millions of gold coin and bullion in the country and yet, as has been recently too plainly demonstrated, the Government itself might hold much less than one-tenth of the stock. It is little to the purpose to say that, under such an exigency, the Treasury could borrow gold to any extent that the conversions of silver might require. Within the last three years, we have seen the Treasury borrow 290 millions of gold for the conversion of greenbacks, but no one supposes that it could have procured much more by the same means. Should the Government be subjected to a run upon its gold in exchange for silver dollars, precisely the same limitations of ability to redeem would confront it. The dangers attending such an emergency would prostrate credit, including that of the Government; the yellow metal would be hoarded; and a point would be reached at which the Treasury could not procure the gold it so imperatively needed. When that point was touched in the endeavor to keep silver on a parity with gold, the next step would be a fall in the value of the silver dollar; gold would cease to circulate and would emigrate; and the sole silver basis must follow as a necessity. Equally, silver becomes the supreme legal tender if the Treasury stock of gold is exhausted from any other cause. On the 1st of February, 1895, the Treasury stock of gold coin was within $10,000,000 of the point of exhaustion and, but for the voluntary saving intervention of the New York banks, the country would within a week have been driven upon the silver basis. This fact illustrates how the silver dollar stands ever ready to precipitate and consummate the suspension of gold payments in the event of large conversions of the greenbacks. Inseparably co-operating together, silver and legal tender paper constitute a standing threat against gold and the gold basis. This is a legally intrenched weakness in our currency system; and it receives its whole force for mischief from these two currencies being endowed with the legal tender quality.

What can be done towards eradicating these elements of danger? So far as respects the silver dollar, the only safe course would be to deprive it of its legal tender force, except for limited amounts, and reduce it to the position of a sub-

sidiary currency; then,—however redundant its volume might be for that purpose,—it would be deprived of its power of endangering the gold basis. Quite possibly, however, that achievement is too much to be hoped for in the present chaotic state of popular opinion on the silver question. To press it now might endanger the accomplishment of other possible reforms, and legislative tactical prudence would seem to suggest that this branch of the general question could be more successfully dealt with when the silver fanaticism has more fully subsided. Meanwhile other invaluable ameliorations should prove obtainable, which will be considered later.

II.

THE TREASURY NOTES OF 1890.

The next element in our legal tender system to be considered is the TREASURY NOTES OF 1890. The total original issue of these notes amounted to $155,931,002. The amount outstanding, on January 1st, 1897, was $119,816,280, the difference of $36,114,722 between the original total and the sum outstanding a month ago being due to final redemptions. The redemptions have been effected through coining, from the silver bullion in the Treasury, a corresponding amount of standard silver dollars. The Secretary of the Treasury has no doubt full legal discretion to pursue this method of redeeming the notes; but it is much open to question whether he has exercised his power wisely. If his policy were carried to the extent of extinguishing all these notes, its effect would be to add over 150 millions to the stock of legal tender silver; which would be a huge inflation of our worst form of money and of our most dangerous form of legal tender. We shall later show that there are other ways of getting rid of these notes; so that the policy of converting them into a worse and more permanent form of "lawful money" is a needless aggravation of our monetary complications. It is much to be hoped that the successor of the present Secretary of the Treasury may seriously reconsider this feature in the Treasury administration.

There is no possible excuse for the existence of these notes. They were not needed to satisfy any real lack in the volume of the circulating medium; on the contrary, money had become redundant by the excessive antecedent coinage of silver. The notes were arbitrarily forced into circulation at a time when prices were falling heavily and when the amount of money needed was therefore diminishing; and, to that extent, they were and still remain a monetary inflation pure and simple,—an evil quite as much to be deprecated as that of an insufficiency of circulation.

The notes were born of a most discreditable political compromise. They were Senator Sherman's douceur to the silver faction at a moment when the country demanded the suspension of silver coinage, given for the consideration of securing for his party the good will of the silver faction in Congress. The notes are to all intents and purposes silver paper. They were issued for the purchase of silver, and the metal which hey bought is held as a totally inadequate collateral for their protection. To that extent, they are as much silver paper as are the Silver Certificates, which are backed by an equal amount of silver coin. The law authorizing them pledges the Government to keep them on a parity of value of gold; but the Silver Certificates are equally protected by the second section of the Act of July 14, 1890, which declares that it is "the established policy of the United States to maintain the two metals on a parity with each other." They have, however, this vicious fault which does not attach to the Silver Certificates,—they are payable for all dues "public and private," whilst the Certificates are a legal tender for dues to the Government only.

Under the foregoing "parity" declaration, the Government has felt bound to regard these notes as a claim upon its gold reserve equally with United States notes. During the successive runs upon the Treasury gold in 1893, '4, '5 and '6, no less than $80,000,000 of them were redeemed in gold. Pro rata, therefore,

these notes have constituted an instrument for draining the Treasury almost equally with the greenbacks, and have contributed an important quota to the necessity for the recent successive increases of the Public Debt. When these obligations were authorized, although they constituted a severe drawback upon the public credit, yet no compensating increase in the Treasury gold reserve was provided by Congress. The consequence was that the 100 millions of gold, which constituted the narrow reserve of 29 per cent against the greenbacks, was reduced to 20 per cent when 150 millions of Sherman notes also claimed protection under it. In this very important sense, the Treasury notes undermine the greenbacks and increase their exposure to default. It was a serious enough matter that we should have gone so far as to permanently saddle the Government with 346 millions of demand greenbacks with a gold reserve wholly insufficient to protect them; but when 150 millions more was added, with no increase in the already slender reserve, an act of recklessness was committed sufficient to shake the credit of the strongest public treasury in the world; and, unconscious as custom may have made ourselves to the enormity of this folly, civilized nations have never ceased to wonder at our temerity and to distrust our monetary status.

III.

OUR GOLD LEGAL TENDER.

The gold portion of our legal tender money is its only redeeming feature. We have an ample stock of the metal. Next after that of France, ours is the largest national stock of gold coin in the world. It affords ample basis for a currency system possessing the essential elements of redeemability, soundness and strength. But this bulwark has been weakened through the needless multiplication of its points of exposure. Much as we have needed this metallic protection, we have failed to utilize it for fortifying our banking and for supporting our large mass of credit currency. Incredible as it may seem, yet it is statistically demonstrable that of our present stock of fully 700 millions of gold nearly one-half is out of sight and, so far as cognizance goes, out of use; and the only tangible evidence of its existence is that, under special emergencies, it comes out of hiding places with unexpected liberality. Urgently as it is needed for the fortification of our currency system at large, yet our other forms of legal tender are inimical to the retention of the yellow metal in the country; and the whole course of our currency legislation for many years past has been to encourage that dangerous tendency. No more striking evidence has ever been exhibited of the force of the "Gresham law,"—that the introduction of an inferior currency drives out a superior form,—than our own recent monetary history has afforded. The process by which that law worked out its effects is clear as noon-day. After the resumption of specie payments, gold accumulated rapidly and, from 1878 to 1888, the imports of the metal exceeded the exports by 265 millions. During this recuperative period, however, we began the issue of under-valued silver dollars and, in 1889, when our stock of silver had been thereby raised to 437 millions, the tide changed. In 1890, by a miserable subterfuge intended to quiet public apprehension, the coinage of standard dollars was suspended; but the purchases of silver were continued upon an increased scale, and paper representatives of the metal were issued instead of the silver dollars—hence the Treasury notes of 1890. This accumulation of silver for monetary purposes was persisted in until, in 1893, our total stock of the depreciated metal had reached 624 millions, when purchases were stopped by Act of Congress. The effect of these creations of unsound money has been that, ever since 1888, our annual exports of gold have largely exceeded our imports and, for the eight years ending with 1896, foreign countries have taken from us a net sum of 322 millions of gold. Had it not been for the compensation coming from the home production of gold, this efflux of the nobler metal must inevitably

have landed us upon the silver basis. From these causes we find that one-half of our stock of gold is hoarded and that an equal amount has left the country. These facts illustrate the incompatibility of the retention of a liberal stock of gold along with a redundant stock of legal tender silver money. This is the result of an economic law which cannot be defeated.

The two other elements of our legal tender currency—United States notes and Treasury notes—are equally hostile to the retention of our gold. The joint 466 millions of these notes now outstanding are a standing menace to the credit of the Government. As compared with the amount of like liabilities incurred by well-governed nations they are a monstrosity in finance. The experience of all Europe is without exception against the safety of State issues of paper; in almost every case they have been either the parent or the child of State repudiation. We are owing approximately 2,000 millions to foreign investors who have been educated into distrust of this kind of money; and the moment they see a danger of greenbacks being pressed for a farcical redemption they send their investments home and our gold has to go out in payment. It is this kind of apprehension which, along with our reckless issues of silver legal tender, accounts for the large foreign drain upon our gold stock to which we have above referred.

The sum of this evidence is that, if gold is to be made the basis of our currency system, it must be exempted from these artificial causes of drain; it must be severed from association with other legal tenders which are continually neutralizing its conservative functions; it must, with no further delay, be freed from the counteractions coming from the greenbacks and the Treasury notes and, so soon as it may be found practicable, from the overwhelming flood of silver.

IV.

THE GREENBACKS.

We now come to the consideration of the fourth constituent of our legal tender system,—the 346 millions of United States notes, or "greenbacks."

These notes were born of a supposed supreme public necessity. Scarcely a member of Congress defended their issue upon conservative economic principles. Confessedly, all such considerations were cast to the winds, and no pretensions were made by the Treasury and its immediate friends to insure scientific merit in the money to be provided for the emergency. Something that could be quickly improvised and made to circulate in the largest possible volume was, in their estimation, the best contrivance to meet the urgencies of the then desperate situation. Such, the "greenback" was intended and deemed to be—a purely emergency issue, adapted for a special occasion and not for the permanent purposes of normal times. All that was maintained by the supporters of the Legal Tender Act was that an issue of this character was imperative; that the Constitution interposed no obstacle to the plan; and that the Government could by no other means provide the sinews of war. The best intellect of both houses of Congress stood out firmly against this purely military reasoning, but finally assented to the persistent entreaties of the importunate supporters of the Treasury; it being understood on all sides, however, that the notes should be withdrawn so soon as the resources of the Treasury permitted.

From the day of their issue, the greenbacks circulated at a discount, the Treasury being wholly unable to redeem them. Their value at one time fell to 40 per cent of that of gold; but no serious purpose of retiring them was at any time entertained. On the contrary, after fifteen years of disordering fluctuations in the value of the notes and consequently in all prices, it was decided to accumulate gold for establishing the payment of the notes in gold. The resumption of gold payments took effect on January 1st, 1879, with unexpected success. Our credit abroad was strengthened and our securities were bought largely by foreign investors; so that, between 1878 and 1888, our stock of gold was increased $224,000,-000 by importations of the metal. Im-

portant as this achievement may at first sight appear to have been, experience has shown that it was not the best policy possible under the conditions. It was not wholly the act of good faith it seemed to be; for it evaded the retirement of the notes which was virtually promised when their issue was authorized. It may be a good thing for a government to resume payment upon an embarrassing load of demand obligations; it is a far better, in every sense, to finally liquidate them. That, the Treasury was amply able to do from its surplus revenues; but instead of then and there using its extraordinary income to get out of a business which did not belong to it and for which it was not adapted, it spent, between 1879 and 1890, $1,070,000,000 in liquidating the interest-bearing debt largely in advance of its maturity; and Congress even ordained that all notes redeemed should be re-issued. Had one-third the sum devoted to these retirements of bonds been directed to the cancellation of the greenbacks, we might ten years ago have been rid of the worst embargo that has ever hampered the Treasury. Resumption has proved to be the means of perpetuating the dangers warningly foretold in Congress when the Legal Tender Act was adopted.

We have paid our penalty of suffering for this error of preferring resumption to final redemption. The peril of the Treasury and the wreck of confidence for the last four years are the direct results of that blunder, and the baffling question of to-day is—how we may best rectify that monumental mistake.

There were certain popular assumptions which the Congressmen of the seventies may plead in defense of the fatuous policy of those times. The greenback was popular among the unreflecting masses,—(1) because it was awarded the credit of having helped us over the worst straits of war finance; (2) because it seemed a ready and cheap way of creating money; (3) because it was a sure way of expanding the currency and of thereby inflating prices ad libitum, for which the speculative spirit of the times was clamoring; (4) because its connection with war finance threw around it a glamour of patriotic associations, and hence it was enthusiastically christened "the battle-born and blood-stained greenback"; and (5) because it threw the prestige of State precedent around the otherwise discredited principle of fiat money. It is, more than anything else, the respect of Congress for these blind popular prejudices that has so long perpetuated this most dangerous form of paper legal tender. Even to-day, after such demonstrations of its perils as we have witnessed for these last four years, this sort of sentiment lingers so tenaciously among the various opponents of sound money that it is much open to question whether Congress will have the moral courage to decree the final cancellation of these notes. There are too many evidences at Washington of a desire to evade this issue. One able legislator, prominent in the treatment of this question, has devised a complicated scheme for imprisoning the notes in the banks and making their redemption devolve upon those institutions, in return for the privilege of issuing bank circulation. This is a specimen of the subterfuges under which Congressmen are willing to evade the imperative duty of ridding the currency of this supreme source of danger.

THE TEST OF EXPERIENCE.

Our experience with these notes since 1893 has overthrown every pretense upon which it has been sought to justify their perpetuation. They have been defended on the ground that the issuer, the United States Government, has behind it an unlimited resource for their redemption. But, while that is theoretically true, in practice it is found that the power of taxation, on which that supposed financial puissance rests, cannot be effectively brought to bear upon the exigencies to which the Treasury stands exposed. The great run on the Government for the redemption of its notes, which began in April 1893 and continued for nearly four years, has resulted in the redemption of nearly 500 millions of notes; and yet the Treasury has received no relief from Congress but much refusal of help, and has

been compelled to issue 262 millions of bonds with a future interest charge aggregating 244 millions, while the distrust attending the process has produced a three years' paralysis of the business of the country and shaken our credit the world over. Is a treasury thus situated,—thus isolated from its imagined illimitable resources, thus compelled to increase its credits in order to protect them, thus dependent on income from the whims of politicians and the conflicts of parties,—is a note-issuing power thus circumstanced fitted to meet the sudden demands of holders of nearly 500 millions of its notes? A more preposterous notion never got into the heads of men than that a State treasury is a safe resource as against large issues of demand paper. It is of all debtors the least qualified to meet an exigency. Its resource is defined not by the taxable public wealth to which, in mere theory, it has access, but by the extent to which the legislature will use its power of taxation for such purposes; which all experience has shown to be very limited and very uncertain.

It is scarcely possible to conceive of a more vicious perversion of the functions of government than the issuing of a paper currency based upon the mere credit of the central authority. The issuing of a circulatory credit is distinctly a banking function, and, as such, cannot be properly assumed by a government, which has no right to assume fiduciary responsibilities in behalf of private interests. Its legitimate debts are more than a government is wont to care for wisely; why then should the State assume sponsorship for a vast amount of currency liabilities in place of those whose legitimate business it is to provide those instruments, and who best understand the requirements of such issues? Governments are exposed to uncontrollable risks and to wide irregularities of income and expenditure, which, by endangering their credit, expose their currency obligations to depreciation, to irredeemability and even repudiation. At one time or another, State currencies are sure to be overtaken with default; when the investments and the commerce of the whole nation suffer accordingly. In order to maintain its stability of value, credit money should always be guaranteed by convertible assets, readily within reach of the law; but how can a government be assured of having a sufficiency of available assets whenever its note-holders please to demand the redemption of its notes? And what law can reach it to enforce payment? The State may provide a gold reserve against its issues; but how surely do other more urgent demands of government divert such reserves to other purposes! If a people cannot be trusted to provide their credit money themselves, certainly the State cannot; for no government has practically a financial resource equal to that of its organized citizens, nor a steadiness of control over its means comparable to that of the voluntary action of the people at large.

GREENBACKS AS THE MONEY OF BANKING.

Again, note the danger of constituting this Treasury paper the lawful money of banking. The credit of the banks and that of their customers is made dependent upon the vicissitudes of Federal finance. During the crisis of 1894, to which reference has been made above, the conversion of ten millions of notes into gold at the Treasury (for which arrangements had actually been made) would quite probably have compelled the Treasury to suspend gold payments. In that event, the greenbacks would have represented silver, as they would be no longer exchangeable for gold; and, as the better half of the banks' reserves was in the form of paper legal tender, it was more than possible that the banks might have been forced into suspension along with the Treasury. These are illustrations of the grave nature of the commitments of the banks under a system which virtually compels them to carry a large portion of their legal reserves in the form of Government paper. Thus, the vitiation which the Legal Tender Act has introduced into our currency system inevitably extends itself into our banking system, and the credit of the nation and the machinery of com-

merce and finance are together exposed to subversion.

The true position for the United States Treasury to occupy is that of independence of all external commitments and demands, with its finances well compacted and subject to no payments but such as attend its functions of defense and the administration of the laws. The true relations of the banks with the Government are those of absolute independence of the Treasury, uncompelled to accept any of its obligations, but always prepared to extend relief to it under public emergencies, and qualified to supply from their own vaults all gold required for export; whilst, in their mutual transactions at the Clearing-house, both parties should settle in gold coin. But, under existing relations, stringency at the Treasury becomes stringency among the banks; neither party can help the other and the troubles of either become the embarrassment of both and of the country at large.

The foregoing facts and considerations show how disastrously our paper legal tender conflicts with the maintenance of a gold basis of finance. The greenback, allied with the Treasury note, constitutes a fixed menace to the credit of the Government. Jointly, they make our banking and our entire credit system directly dependent upon the maintenance of a larger stock of gold in the Treasury than there can be any adequate certainty of its being able to keep. Everything relating to commerce and finance is made subject to a State institution exposed to the vicissitudes of war, of popular vagaries and of such political agitations as shook confidence to its foundations in the canvass of the late Federal elections. Fortunately, intelligent public opinion has become so fully alive to the dangers attending such a state of affairs that it seems impossible that this element of confusion should be much longer tolerated. We are under no disabilities for such a reform but those of sentimental prejudice and popular ignorance of economic questions. Our ample resources of gold, our ability to get more should it be legitimately needed, and a banking system capable of providing a well-protected bank note circulation,—these afford the ready resources for the reconstruction of our currency arrangements upon an absolutely sound basis.

V.

HOW TO RECONSTRUCT OUR LEGAL TENDER SYSTEM.

It follows from the conflicting elements which constitute our legal tender system that the first step in a broad scheme of currency reform should start at that point. It is the money of final redemption that above all determines the quality of paper currency; and, therefore, before we inquire what shall be the circulating medium of the future, it is necessary to determine what shall be the money in which it shall be redeemable.

What, then, should be done to remove the deep taint that inheres in our present legal tender system? We have already shown that over 900 millions of that currency is unsound to the core and unfit to be invested with the attribute of legal tender. The 437 millions of silver dollars, we have suggested, could be prudently left for future readjustment. Immediate remedial treatment should therefore be confined to the 466 millions of United States notes and Treasury notes. As there is no essential distinction between the two currencies, both should be dealt with in like manner.

It may be supposed that the "Treasury notes" could be easily extinguished through retiring them with dollars coined from the silver bullion held against them; and there is confessedly a seeming congruity in that method of treatment. But, as we have previously shown, that process is exposed to the very serious objection that it would very seriously augment our already radically dangerous excess of standard dollars; and, to our view, that aggravation of the silver inflation ought to be resolutely resisted.

Granting, then, that Congress should forthwith agree to retire all the legal tender notes by a uniform process, the question arises—what should that process be? It is very commonly answered,—"retire the notes by the issuing of bonds

and make the bonds available as guaranty for issues of bank notes to an amount equivalent to that of the legal tenders retired." The extinction of the notes is a sine-qua-non; and this process for accomplishing their retirement appears so simple and conforms so entirely to the existing basis of bank circulation that it has commanded perhaps a broader assent than any proposal so far forthcoming. It is of some importance too that the prospective President and the next Secretary of the Treasury have espoused substantially this mode of treatment; for their sanction is calculated to give the plan the stamp and force of a fixed party policy. And yet we fear that the apparent simplicity of this plan has caused it to be accepted without duly weighing all its involvements. Its whole aim is to substitute bank notes for the legal tender notes; which must be the purpose of any plan worth considering. But it is most essential to keep in mind that no uncertainty as to whether bank notes would be forthcoming to the amount of the paper retired could be afforded. Any plan that carried the possibility of its resulting in a contraction of the circulation would certainly and properly fail to receive the assent of Congress. And yet is there any really sufficient ground for confidence that the offer of 2½ or 3 per cent bonds, even if the banks were allowed to issue notes up to the par value of the securities, would draw out circulation to the amount required? We think this is extremely doubtful. The easier conditions suggested would yield probably ¾ to 1 per cent per annum more on circulation than the banks are now earning on their note issues. That would doubtless lead to some increase in the issues of the banks of the Eastern and Middle States; but it would yield a much less effective inducement to the banks of the West and South, where the need for freer issues of currency is most felt and has become a cause of very just and serious political discontent. Moreover, it is not to be overlooked that, for years past, the National bank circulation has been in a decadent condition. Its volume is now but little more than half what it was twenty-four years ago; yet, be it noted that, within the same period, the population has increased 60 per cent. In this very important sense, the present bank note system has proved a practical failure. This shrinkage of issues is due not merely to the fact that, under modern conditions, the profits on circulation have diminished, but also to experience having shown that there are serious disadvantages to banks of deposit and discount in having such an important part of their resources placed beyond their reach under emergencies. In other words, the deposit of bonds to secure circulation has not stood the test of experience; and, as a matter of fact, a considerable portion of the existing bank circulation is taken out chiefly because the banks find it convenient to carry a certain amount of bonds as a conservative investment, and the return upon them is somewhat improved by issuing notes against them. For these reasons, it would be highly hazardous to withdraw the legal tenders on the mere assumption that the National banks would correspondingly increase their issues.

Besides, it is not to be overlooked that the bonds which it has been suggested should be made the basis of the new circulation would be withdrawn, through maturity, some 25 or 30 years hence. It would then be necessary to provide some other form of guaranty; and if we may count upon being able to then introduce some substitute for the bond basis, the question is pertinent—why not adopt such a form of guaranty now, with a prospect of its being perpetuated permanently? Again, the cost of this method of getting rid of the legal tenders is surely deserving of appreciative consideration. Supposing 300 millions of bonds were issued, bearing 2½ or 3 per cent interest and running for 25 or 30 years; we should thereby incur a total interest charge of from 206 to 247 millions for getting rid of these notes. Is this great country so impecunious that it cannot save that enormous waste on interest by a method more nearly approaching a cash liquidation? We have already incurred an interest obligation of 235 millions in providing gold to protect

the notes; surely we should hesitate before saddling posterity with over 200 millions more in getting rid of the evils for which our own generation is solely responsible. The main reason why it is proposed to retire the legal tenders through borrowing is that the bonds so issued might be made a basis for bank notes; and yet we can have no assurance that the banks would take a sufficient amount to insure the purpose contemplated; and if we could be certain that they would, it is surely a very pertinent question whether the country should be called upon to incur such a fiscal burthen to enable the banks to issue notes which could be quite as well protected without resort to this expedient.

SOME OVERLOOKED TREASURY ASSETS.

In liquidating this legal tender account, there are some noteworthy assets of which little or no account has so far been taken. The Treasury now holds 145 millions of gold. Supposing it to be relieved of its note liabilities, a fixed working gold balance of say 25 millions should suffice for all its operations. This would leave 120 millions available for the redemption of an equal amount of legal tenders. The Government also now holds 120,864,397 ounces of silver bullion purchased under the Sherman Act of July, 1890. After the notes issued under that Act were redeemed, this silver would no longer be needed to protect them; and the bullion would therefore become a useless free asset and ought to be sold. At the present market price, this treasure would bring $80,000,000 in round figures. From these two sources, the Treasury could contribute 200 millions towards the liquidation of its paper. It would also probably be safe to credit it with 20 millions representing notes lost and destroyed during their thirty-three years of existence. Deducting these three items, aggregating 220 millions, from the computed amount of greenbacks and Treasury notes outstanding, we have a net sum of 246 millions of legal tender notes remaining to be liquidated from other sources.

This is hardly a sum to be very seriously concerned about; nor one that should drive us to borrowing for a whole generation. During the 23 years from 1870 to 1892, we paid off the public debt at the average rate of $77,000,000 per year; and we can certainly be no less able to make such liquidations now than we were then. Moreover, we have legal obligations towards the Debt Sinking Fund, which have run into arrear during recent years. Honor towards the national creditors requires such an increase of income as would enable us to resume those payments; and there is no legal reason why the proceeds should not be devoted entirely to the liquidation of these note obligations. At the present time, the yearly requirements of the Sinking Fund amount to a fraction over $50,000,000; so that, provided the payments were regularly maintained, the portion of the two classes of notes not retired from the above-mentioned assets could be extinguished within five years. To insure regularity in the contributions to the Sinking Fund, it would be wise, if not necessary, to levy certain special taxes or duties, or both, for a period sufficient to complete the liquidations and to make the proceeds devotable exclusively to this purpose. To the extent that these resources might prove insufficient for retiring the notes, bonds might be issued. But it is very doubtful whether such resort would be needful; and, if it were, such issues of bonds would be quite nominal. This, we submit, would be an honorable, smooth and sure way of extinguishing these more immediately dangerous elements of our legal tender currency.

VI.

NEW ISSUES OF BANK NOTES.

We have already in part anticipated the question as to what form of currency should take the place of the withdrawn legal tenders. It goes as a necessity that bank notes are the only possible and safe substitute. But whilst we have stated reasons why, in providing such substitute, it would be unsafe to depend exclusively upon issues by the

National banks against deposit of bonds, we are not to be understood as implying that that basis of issue must be wholly discarded. Any National banks that might prefer to put out notes upon the now existing form of guaranty ought to be permitted to act upon their choice.

It is clear, however, that it is not alone for the purpose of securing a volume of bank notes equal to that of the retired legal tenders, but also to give ample elasticity to the future currency resources of the country, that a basis of issue must be provided which would be amply capable of supplementing the insufficient issues of the National banks. Our regular readers are aware that, to provide for that purpose, we have repeatedly urged the adoption of a National Currency Law, defining the conditions upon which banks may issue notes, and applicable to whatever banks, National or State, may be able to conform to the legal conditions therein stipulated. Such system of issue should be subject to Federal administration, supervision, investigation and report as strictly as the National banks are under existing law. The note guarantee should consist of a first lien upon the entire assets of the issuing bank and a claim upon the stockholders to the full amount of their shares. Those safeguards, it is statistically demonstrable, would afford a protection to the notes largely in excess of the risks that would attend them. The limitation of the issues, we have suggested, should be fixed at 75 per cent of the paid-up and unimpaired capital; and the current redemptions should be effected through a series of officially appointed banks evenly districted throughout the country. These general features involve a series of details which we cannot here recite. In lieu of such repetition, we present below a resume of our former and present suggestions covering this question.

SUGGESTIONS

FOR THE SUBSTITUTION OF LEGAL TENDER NOTES BY ISSUES OF BANK NOTES.

I.—Authorize the redemption and cancellation of all outstanding United States notes and the Treasury notes of July 14, 1890.

(a) To prevent contraction of the volume of circulation, said redemptions shall not at any time exceed in amount the issues of bank notes provided for under Section III.

(b) To provide the means for said redemptions, the Secretary of the Treasury shall be required (1) To use, at his discretion, the fund in the Treasury known as the "gold reserve ;" (2) To sell, at his discretion, from time to time, the silver in the United States Treasury acquired by purchase under the Act of July 14, 1890; (3) To use, for this purpose, all income devotable to the debt Sinking Fund and all revenue not otherwise appropriated; (4) For the same purpose, a duty of 3 cents per pound on coffee and 6 cents per pound on tea shall be paid on imports of those articles, until nine-tenths in amount of the aforesaid notes shall be declared redeemed by the Secretary of the Treasury, when such duties shall cease; and (5) The Secretary of the Treasury shall be authorized to borrow, for the aforementioned purpose, on bonds payable after six years from date of issue at the pleasure of the Government, and bearing interest at 3 per cent., such amount as may be found necessary for these purposes in addition to the proceeds from the other sources hereinbefore enumerated.

(c) To compensate for any impairment of National bank reserves, pending the retirement of the aforesaid legal tender notes, the National banks shall be permitted to hold one-half of said reserves in the form of United States bonds; that privilege to cease at six years from the date of authorizing Act.

II.—From and after six months following date of Act, the Treasury shall not reissue any notes authorized under the Legal Tender Acts and the Act of July 14, 1890.

III.—After the date of Act, any incorporated bank within the United States, having a paid-up and unimpaired capital of not less than $25,000, shall be permitted to issue circulating notes to an amount at no time exceeding 75 per cent. of said paid-up and unimpaired capital, upon the conditions following:

(1) That such notes shall be a first lien upon the entire assets of the bank issuing them, and a claim upon its stockholders to the full amount of their ownership of stock.

(2) That each issuing bank shall pay a tax of ½ of one per cent. per annum on its average circulation, to defray the expenses of the administration of this law and of printing the notes.

(3) That no banks shall issue said notes until the Secretary of the Treasury and the Comptroller of the Currency are satisfied, upon due examination, that the bank applying for this franchise has entirely complied with the herein specified conditions.

(4) That the Comptroller of the Currency shall be required to call for quarterly statements from all issuing banks relating to such items as he may deem necessary, in order to show whether they have continuously complied with all the provisions affecting note issues under this law.

(5) That if any issuing bank should fail to comply with these conditions, the Comptroller of the Currency may, at his discretion, require such bank to call in its notes and suspend issuing.

(6) That, immediately upon the failure of a bank, the Comptroller of the Currency shall, if the bank be organized under the National system, cause its note obligations to be paid first and with all promptness; and, if the bank be organized under a State law, he shall appoint an Administrator, in the sole interest of the noteholders, to whom shall be payable, out of assets and assessments on shareholders, an amount sufficient to liquidate all outstanding notes, before the claims of any other class of creditors are satisfied under the laws of the State.

(7) That the notes of a failed bank shall bear 5 per cent. interest from the date of failure until the payment of the notes.

(8) That the notes of all banks shall be printed by the United States Government, after such uniform design as the Comptroller of the Currency may approve.

(9) That the denominations of the notes shall not be in smaller amounts than $5, unless the Comptroller is satisfied that the public convenience requires lower denominations; in which case notes of $1 and $2 may be issued.

(10) National banks shall have the choice of issuing notes under the present National banking laws, or under the conditions of issue herein prescribed.

IV.—In order to insure free and expeditious redemption of circulating notes, there shall be established six Redemption Districts by the Comptroller of the Currency, in the manner following:

(1) The limits of the districts shall be determined with due regard to a just division of banking capital and of geographical area.

(2) The Redeeming Agents shall consist of banks situated centrally in their respective districts, and shall be appointed by the Comptroller of the Currency

(3) Issuing banks shall keep a deposit in gold with the Redemption Agencies of their respective districts, at no time less than 5 per cent. of their outstanding circulation; from which the Agency shall make redemption of their notes.

(4) The Agencies shall receive from the banks within their respective districts the notes of banks situated in other districts, and shall forward the same for payment to the Agency for the district in which such notes were issued.

(5) Each Agency shall forward a report to the Comptroller of the Currency, at the beginning of every month, showing what was the average ratio of redemption deposit to circulation of each bank in its district for the month preceding.

(6) In case of the failure of a bank, the Agency shall forthwith suspend redemptions for such bank, and shall hand over any balance to its credit to the Receiver or Administrator of such bank.

V.—Banks issuing notes under Section III. of these Suggestions, excepting clause No. 10, shall at all times hold a reserve in gold coin equal to not less than 15 per cent. of the amount of their outstanding notes, as a fund for the redemption of said notes ; said reserve to be additional to the deposit with Redemption Agent.

VI.—From date of Act, no bank note shall be a legal tender for any payments, except for debts due to the issuer.

VII.—All bank notes shall, from date of Act, be redeemable in gold coin of the United States.

VIII.—From date of Act and until the United States notes and the Treasury notes of 1890 have been entirely redeemed, the provisions of law requiring reserves against deposits may be suspended under emergencies, at the discretion of the Secretary of the Treasury.

IX.—The tax of 10 per cent. upon the notes of banks operating under State laws shall not apply to notes issued under the foregoing conditions and regulations; but, otherwise, said tax shall remain in force.